H nes co p questions une 2 ANS ERS

4)

8) Consider n econo y here

$$y_t = {}_ty^e_{t\%} \ \& \ sr_t \ \% \ \epsilon^{IS}_t$$

$$\pi_t = {}_t\pi^e_{t\%} \ \% \ y_t\% \ \epsilon^{AS}_t$$

here π is the inf tion r te y is the output g p ϵ^{IS} nd ϵ^{AS} re uncorre ted ith e ch other nd re oth
e n zero i i d   there is *no persistence* in these shocks nd they c nnot e predicted in the previous
period The centr   nk chooses r_t to ini ize   oss function

$$L = E\left[-\frac{1}{2}\pi^2_{t\%}-\frac{1}{2}y_t^2\right]$$

Note th t I h ve ssu ed nothing so f r   bout the re tive i port nce of the t o shocks the v ri nce of
ϵ^{IS} ight e iniscu e hi e the v ri nce of ϵ^{AS} is ig or vice vers   A so I h ve ssu ed nothing   bout
the centr   nk s infor tion hen it sets r_t it ight kno the current v ues of oth ϵ^{IS} nd ϵ^{AS} or